HOUSING MARKET OUTLOOK
Saskatoon CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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Table of Contents

1 New Home Market
3 Resale Market
4 Rental Market
5 Economic Outlook
6 Mortgage Rate Outlook
7 Forecast Summary

NEW HOME MARKET

Housing starts to increase in 2010 and 2011

After exceeding 2,300 units the previous two years, total housing starts across the Saskatoon Census Metropolitan Area (CMA) declined 38 per cent to 1,428 units in 2009. Last year's pace of starts was lowered as builders responded to weaker demand associated with the economic downturn and a rise in speculative home inventory. Multiple-family house builders bore the brunt of the downturn with output in this segment 68 per cent lower than the previous year.

So far in 2010, a strengthening economy characterized by job growth, rising incomes and sustained in-migration has reinvigorated housing

Figure 1

Source: CMHC, CMHC Forecast (f)

1 The forecasts included in this document are based on information available as of April 23, 2010.

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demand with higher absorption rates reported across all housing segments. In line with this, total housing starts across metro are forecast to increase 12 per cent to 1,600 units this year. Next year will witness a further uptick in housing starts as local builders expect to break ground on 1,850 new units.

Single-detached starts rise

Single-detached home builders across Metro Saskatoon started 1,101 units in 2009, a 15 per cent reduction from the previous year. Notwithstanding this decline, 2009's production was the third highest level of output recorded within the past 23 years. The slower pace of construction allowed for a moderation in single-detached supply throughout 2009, which includes units under construction and those that are completed and unoccupied. However, given a nearly four-fold increase in starts in the first quarter of 2010, supply levels are now rising. At 886 units in March, single-detached supply was nine per cent higher than the previous year. The gain was due to rise in units under construction rather than inventory. The number of complete and unoccupied units continued to move lower in the first quarter, as the 95 unabsorbed singles in March were 51 per cent lower than the previous year and the lowest total since December 2008.

The 791 units under construction in March were 21 per cent higher than the previous year. Nonetheless, the recent status of units under construction should not pose concern for builders, provided future construction is based on presold units. To the end of March, builders poured foundations for 280 units, up from 77 units the previous year. However, it is unlikely this pace of activity will continue through the balance of 2010.

The first quarter of 2009 was the weakest in 14 years, as starts declined in response to the economic downturn and heightened inventories. Conditions improved during the remaining months of 2009, thus year-over-year comparisons will narrow moving forward.

The later months of the year should see a moderation in activity, as local builders grow mindful of supply levels, particularly speculative units under construction. Nonetheless, stronger economic conditions and sustained in-migration will ensure demand for single-detached housing remains strong. Accordingly, our forecast calls for a 14 per cent increase in single starts this year with local builders breaking ground on 1,250 units. In 2011, single starts will again see an uptick to 1,350 units, an eight per cent increase above 2010.

New House Price Index on the rise

Statistics Canada's New House Price Index (NHPI) measures the price increase of homes where the specifications remain the same between two consecutive periods. In 2009, the NHPI decreased 7.6 per cent, representing a slowdown from the double-digit increases of 38.8 per cent and 20.6 per cent in 2007 and 2008 respectively. Despite a decline in the house-only component of the NHPI in the first half of 2009, price pressures are returning. Higher housing starts will absorb some of the excess capacity in the industry, while land prices will rise with increased demand for newly developed lots. Overall, expect the NHPI to increase 2.2 per cent and 3.3 per cent in 2010 and 2011, respectively.

The average absorbed single-detached price is forecast to increase at a faster rate than the NHPI. Unlike the NHPI, consumer demand for larger or smaller homes with more or less features influences the average price. It is also subject to compositional effects as a shifting proportion of sales can occur in higher or lower price ranges. Driven by these factors, the average absorbed price ended 2009 at $355,563, down three per cent from 2008.

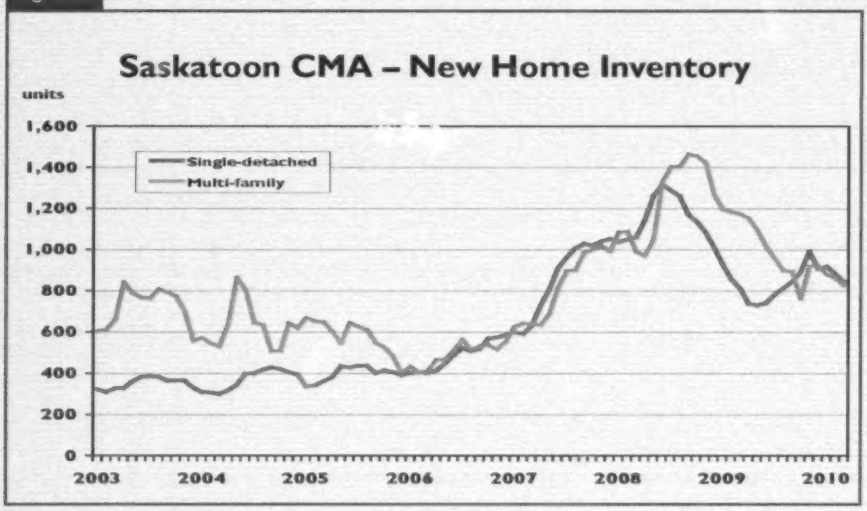
The average absorbed price will rise over the forecast period, but at rates comparable to those seen prior to 2006. Buyers will be facing rising mortgage rates, and thus may forgo the additional features they would have purchased prior to the increases. Meanwhile, those looking to upgrade their existing homes will carry forward weaker equity gains compared to previous years. As a result, the upward shift to higher price ranges will continue but at a slower rate.

Supply of multiple units starts to decline throughout 2010

Multi-family starts, which include semi-detached, row, and apartment units, will increase moderately in 2010. Following years of elevated production, the supply of new multiple-unit houses increased rapidly, eventually peaking at 1,464 units in September 2008. In the face of rising inventories, local builders set about drawing down their stock of multi-unit houses. Accordingly, Saskatoon saw a 68 per cent decline in multi-unit starts in 2009. Based on first quarter data, the supply of multiples has declined and currently stands at just over 820 units, 30 per cent below the amount recorded last year at this time.

This decline follows from the large number of absorptions recorded

Figure 2



Source: CMHC

within the second half of 2009 and the first quarter of 2010. The 180 multiple absorptions in the first three months of 2010 were the second highest within the past 22 years, and is second only to the 262 units absorbed at the same time in 2008. This paves the way for our forecast of a modest seven per cent increase in multiples starts to 350 units this year with an additional uptick of 43 per cent to 500 units in 2011.

Rising prices driving first-time buyers to condominium market

Due to the rising price of single-detached housing, some first-time homebuyers have turned to the apartment, row, and semi-detached style as a more affordable home ownership alternative. Demand for the apartment housing form has been particularly strong as lower mortgage rates and sustained rent increases have narrowed the divide between renting and ownership, thus drawing large numbers of first-time buyers into this housing segment.

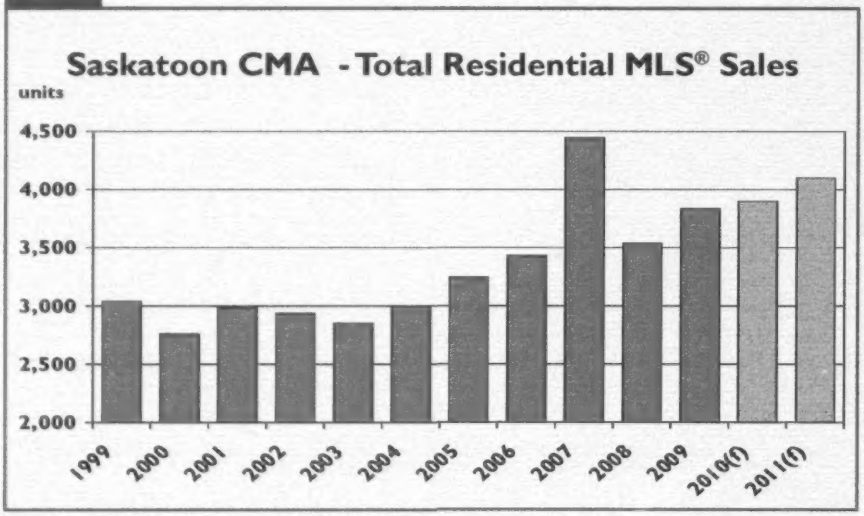
RESALE MARKET

MLS® Sales Higher over Forecast Period

Residential transactions are on pace to reach 3,900 units this year, up 1.7 per cent from 2009. In 2011, activity in the existing home market will increase a further 5.1 per cent, bringing sales to 4,100 units. A wide choice of listings in desirable price ranges, low mortgage rates, and a slower pace of price gains compared to previous years will support the increase in sales. Likewise, rent increases have led to a narrower spread between renting and owning, thus increasing the desire of renters to move to home ownership. Sustained job growth in 2010 and 2011 will further support housing demand by increasing incomes and encouraging in-migration.

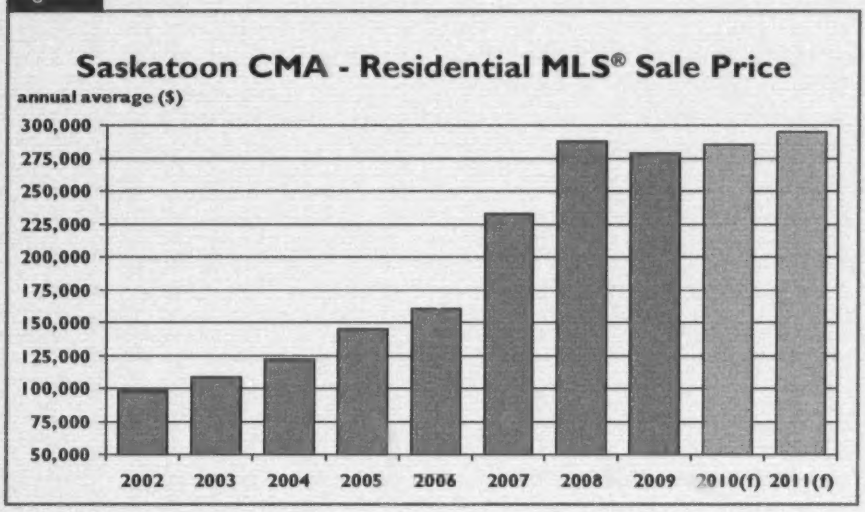
Resale activity began the year on a strong footing with the momentum from the second half of 2009 carrying forward into 2010. To the end of March, sales were 10 per cent higher on a year-over-year basis. Given the rise in sales, the average number of days the typical home remains on the market until it is sold has been trending lower for the past four months. The heightened pace of sales will moderate through the latter half of 2010 as rising mortgage rates and house prices begin to hamper affordability. Nonetheless, the strong sales pace at the beginning of the year will push 2010 activity above last year's levels.

Figure 3



Source: CREA, CMHC Forecast (f)

Figure 4



Source: CREA, CMHC Forecast (f)

Moderate price gains in 2010 and 2011

Following double digit price increases of 45 and 24 per cent in 2007 and 2008, respectively, the average MLS® price decreased 3.1 per cent in 2009 to $278,895. An elevated level of listings helped contribute to the lack of price growth in 2009, a factor that will also constrain price growth in the next few years. At 2,170 units, active listings were 10 per cent lower than the previous year, but remained elevated by historical standards. Listings have been trending higher since October 2009, and are expected to increase further as price gains and move-up buying entices owners to list their homes.

The sales-to-active listings ratio averaged 13 per cent in the first quarter of 2010, significantly lower than historical norms. With heightened listings relative to demand, price growth in Saskatoon will be modest. CMHC's forecast calls for the average MLS® price to increase to $285,000 in 2010, up 2.2 per cent from 2009. Next year, despite higher mortgage rates and heightened levels of active listings, average MLS® price will increase 3.5 per cent to $295,000.

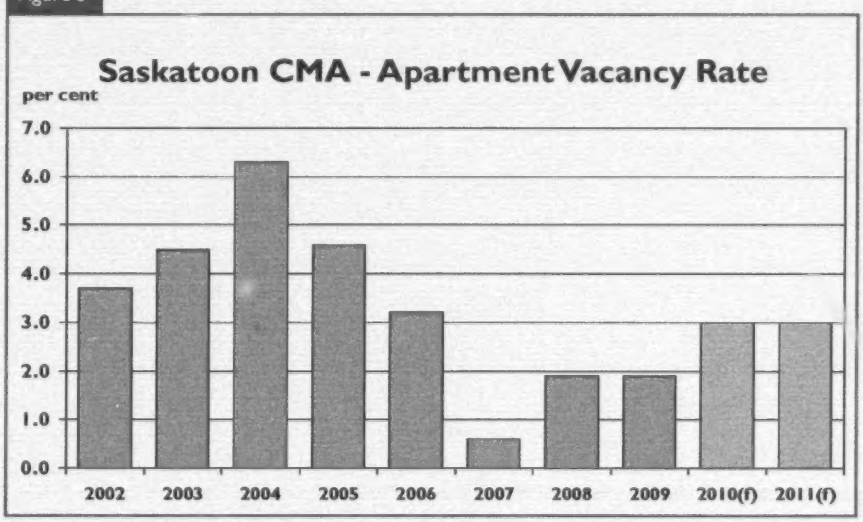
RENTAL MARKET

Average vacancy rate inches up

The apartment average vacancy rate in Saskatoon will increase slightly to three per cent in 2010 and remain unchanged next year. Rents have risen sharply in the last four years causing renters to double up in an effort to offset the rising costs of rental accommodation. Further, new rental supply is arriving in the secondary rental market via condominium investments. These secondary rental suites provide some indirect competition to Saskatoon's rental property owners, especially in the highest rent ranges. As well, fewer units are expected to be lost from the rental universe due to condominium conversion, as local policy restricts these types of investments in lower vacancy conditions.

Notwithstanding these factors, Saskatoon's economy remains strong relative to other prairie cities, thus ensuring that the CMA will capture a large share of provincial in-migration. Part-time employment gains suggest more household formation in the lower income ranges which will seek rental housing. At the same time, higher mortgage rates and rising prices will inhibit some renter households from moving to

Figure 5



Source: CMHC, Fall Rental Market Survey, CMHC Forecast (f)

homeownership. On balance, these factors will result in a slight increase in average vacancy over the forecast period.

Growth in average monthly rent to moderate in 2010 and 2011

The average rent for a two-bedroom apartment will rise to $925 in the October 2010 rental market survey, a $20 increase in the average monthly rent compared to the 2009 survey. This is considerably lower than the rent increase recorded between 2008 and 2009, when average monthly rent increased by $64.

Rent increases have slowed to remove the incentive for tenants to move to homeownership. In 2009, rents increased while resale prices have lessened, causing the difference in monthly expenditures between renting and home ownership to become smaller. Hence, property owners will reduce the pace of rent increases compared to recent years in an effort to curb this trend. Additionally, property owners will moderate the pace of rent increases in order to restrain costly tenant turnovers in the face of higher vacancy rates across metro.

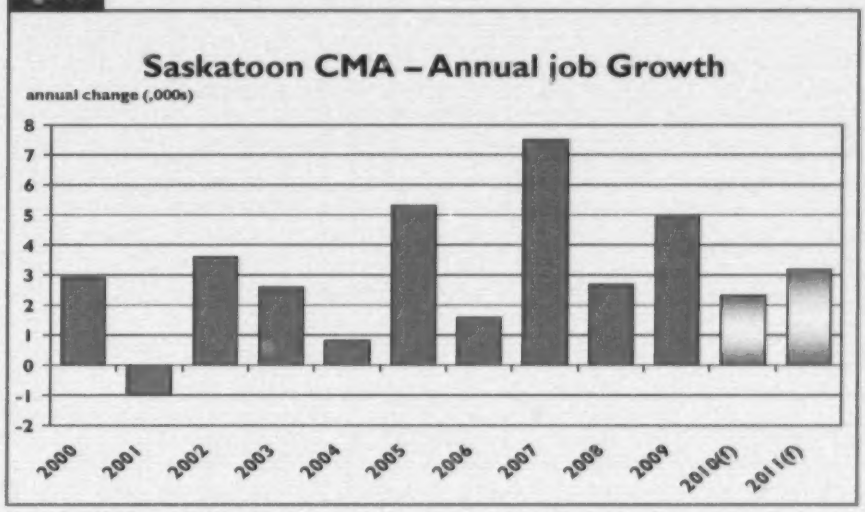
ECONOMIC OUTLOOK

Growth through Forecast Period

Following several years of robust growth, Saskatoon's economy slowed in 2009. This was largely due to the global economic downturn, which led to declining exports, weaker consumption, and lower prices for commodities such as potash, oil, and uranium. Notwithstanding the slowdown in economic activity, Saskatoon experienced overall employment growth of 3.6 per cent, the eighth consecutive annual rise and the longest such run on record. The region's job creation easily outperformed the rest of the province, where employment expanded 1.5 per cent, as well as Canada where employment contracted by 1.6 per cent. Despite Saskatoon's annual job growth in 2009, the region did experience some job losses in the second half of the year, particularly among full-time positions. This, along with a rapid rise in the labour force, accounts for the increase in the unemployment rate from an average of four per cent in 2008 to 4.7 per cent in 2009.

The global economic recovery, in particular, the increase in commodity prices will continue to strengthen economic activity going forward. This will in turn stabilize employment and lead to sustained job gains over the forecast period. Furthermore, Saskatoon is seeing major public sector investment in new and on-going capital projects this year related to health, education, and transportation infrastructure. This, along with higher residential construction, has had a favourable impact on the construction sector where both average weekly earnings and employment are on an upward trajectory. Likewise, employment is up in the resource industry particularly in the oil and gas extraction sector where salaries surpass the average for all industries. This should bode particularly well for home ownership going forward.

Figure 5



Source: Statistics Canada, CMHC Forecast (f)

Despite the many sources of optimism, a number of factors may slow the pace of economic recovery. If persistent throughout the forecast period, a Canadian dollar near parity with the U.S. could slow the rebound, especially within the manufacturing and resource sectors. Likewise, a slower recovery in the global demand for potash could inhibit the pace of economic recovery across Saskatoon. Notwithstanding these factors, CMHC expects Saskatoon payrolls to expand over the forecast period with the multitude of major capital projects

contributing to the employment expansion in the coming months.

Net migration to moderate into 2011, yet remain elevated

Following heightened migration levels in the last few years, net migration into Saskatoon decreased 14.5 per cent in 2009. Saskatoon's relatively favourable economic performance compared to many other centres will continue to encourage in-migration through the balance of the year and into 2011. However, improving employment prospects in neighbouring provinces and other Saskatchewan markets will result in Saskatoon pulling in a lower proportion of provincial migrants. Accordingly, CMHC forecasts that migration would remain at 5,000 persons in 2010 and then moderate to 4,800 persons next year. Despite the moderation, this remains strong by historical standards.

MORTGAGE RATE OUTLOOK

The Bank of Canada cut the Target for the Overnight Rate in the early months of 2009. The rate was 1.50 per cent at the start of 2009 and has since fallen to 0.25 per cent. Looking ahead, we expect that short-term interest rates will begin to rise in the second half of 2010.

With the overnight rate expected to increase in the coming months, mortgage rates have begun to rise. According to CMHC's base case scenario, posted mortgage rates will gradually increase throughout the course of 2010, but will do so at a slow pace. For 2010, the one-year posted mortgage rate is assumed to be in the 3.6-4.8 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2-6.7 per cent range. For 2011, the one-year posted mortgage rate is assumed be in the 5.0-6.0 per cent range, while three and five-year posted mortgage rates are forecast to be in the 5.6-7.2 per cent range.

Rates could, however, increase at a faster pace if the economy recovers more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Saskatoon CMA Spring 2010							
	2007	2008	2009	2010f	% chg	2011f	% chg
Resale Market							
MLS® Sales	4,446	3,540	3,834	3,900	1.7	4,100	5.1
MLS® New Listings	5,816	8,141	6,463	6,200	-4.1	6,350	2.4
MLS® Average Price ($)	232,754	287,803	278,895	285,000	2.2	295,000	3.5
New Home Market							
Starts:							
Single-Detached	1,485	1,288	1,101	1,250	13.5	1,350	8.0
Multiples	895	1,031	327	350	7.0	500	42.9
Starts - Total	2,380	2,319	1,428	1,600	12.0	1,850	15.6
Average Price ($):							
Single-Detached	272,802	366,526	383,234	385,000	0.5	405,000	5.2
Median Price ($):							
Single-Detached	256,568	354,765	373,262	380,000	1.8	395,000	3.9
New Housing Price Index (% chg.)	38.8	20.6	-7.6	2.2	-	3.3	-
Rental Market							
October Vacancy Rate (%)	0.6	1.9	1.9	3.0	-	3.0	-
Two-bedroom Average Rent (October) ($)	693	841	905	925	-	935	-
Economic Overview							
Mortgage Rate (1 year) (%)	6.90	6.70	4.02	4.23	-	5.56	-
Mortgage Rate (5 year) (%)	7.07	7.06	5.63	6.20	-	7.06	-
Annual Employment Level	135,500	138,200	143,200	145,500	1.6	148,700	2.2
Employment Growth (%)	5.9	2.0	3.6	1.6	-	2.2	-
Unemployment rate (%)	4.0	4.0	4.6	4.7	-	4.5	-
Net Migration [1]	4,403	5,845	5,000	5,000	-	4,800	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

(1) 2009 migration data is estimated

The forecasts included in this document are based on information available as of April 23, 2010.

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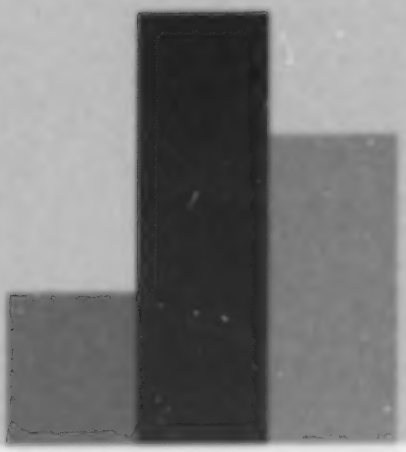

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